

## **Honda Motor Europe – Written evidence (FFT0012)**

### **Summary of Views:**

- As a highly integrated, pan-European business with a significant footprint in both the EU27 and the UK, Honda Motor Europe has consistently called for a future EU-UK relationship that maintains frictionless and tariff free trade, supports access to talent and the movement of personnel, avoids regulatory divergence and allows for the flow of data and services between the EU and UK.
- The future EU-UK agreement must be more than a “simple” Free Trade Agreement and will need to be complemented by domestic legislation on both sides of the channel. Reaching, ratifying and implementing such a comprehensive agreement may take more than just one year. While the Government has made clear it has ruled out seeking an extension to the Transition Period, a meaningful implementation period, as seen in most Free Trade Agreements, should be sought, particularly given the ongoing impact of the current public health crisis. This implementation period should provide businesses with the time needed to comply with both the terms of the FTA, as well as with new UK domestic processes and regulations that will replace EU regulation.
- The UK government has made clear that it will seek to base the future EU-UK relationship on a Free Trade Agreement with limited regulatory alignment and has ruled out continuing membership of the EU Single Market and Customs Union. This means that of necessity, the future EU-UK trading relationship will be shallower than at present, and there will be disruption to highly integrated businesses such as Honda.
- The future relationship agreement should, therefore, aim to minimise this disruption as much as possible by:
  - Ensuring that there are no tariffs on EU-UK trade in goods, including Rules of Origin provisions set at a level that allow manufacturers to benefit from tariff free trade;
  - Enabling the continued smooth movement of employees across our European organisation, including for cross border commuters;
  - Minimising the degree of regulatory divergence between the EU and UK and to ensure that products can be placed on the EU or UK markets without additional testing or bureaucracy;
  - Maintaining the continued flow of data between the EU and UK, and to ensure that rules on connected vehicles and smart infrastructure are harmonised across both jurisdictions;
  - Ensuring that environmental standards remain aligned, particularly in relation to the EU new car CO<sub>2</sub> framework. EU and UK new emissions reporting, for example, must be consolidated across both jurisdictions;

- Mitigating friction both at and away from the EU/UK border due to the need to implement new customs checks and formalities;
- g. Replication of the EU – Japan EPA to ensure UK consumers continue to accrue the benefits customers elsewhere in the EU will receive;
- h. Take the time necessary to deliver a fit for purpose agreement and keep the option of extending the transitional period or delivering a meaningful implementation period.

### **Responses to Questions:**

**What are likely to be the key non-tariff barriers affecting future UK-EU trade in goods and how could these affect the operations of UK businesses? What are likely to be the most important technical barriers to UK trade with the EU? How could these be addressed in the future UK-EU trade agreement and what precedents exist in other trade agreements?**

- Honda benefits from the simplicity of complying with a single regulatory regime across Europe, for the manufacture and sale of cars, as well as motorcycles and power products. The ability to place goods on the market across the EU on the basis of a single Type Approval is a particularly important benefit.
- The duplication of paperwork, certification process or a requirement for separate or additional testing in the UK will place additional costs on our UK business, reducing competitiveness vis a vis other parts of our European operations. Requiring UK specific models, whether of cars, motorcycles or other products, would lead to higher development costs, which would not be spread across the European region. Factories would pass on the costs of building an additional model to the UK business, with the inability to share automobile, bike and power equipment stock across the region would reduce the flexibility of the business and increase stock risks.
- Regulatory alignment will become increasingly important as the industry continues to undergo a significant transformation with the advent of electrification, shared mobility and connectivity – and new products such as energy management and smart charging are brought to market. Diverging approaches between the EU and UK will hamper the ability to roll out new vehicles and technologies to support decarbonisation.
- The future EU-UK agreement should therefore prioritise maintaining alignment on automotive regulation, standards and testing in order to guarantee that a product approved for sale by UK or EU authorities can continue to be placed on each other's markets. Dynamic alignment on future regulation will ensure that innovative new products can be brought to market across the region as a whole.

- The EU-UK agreement should ensure that:
  1. Both parties continue to align regulation across all automotive-relevant legislation, ensuring that the current high standards of vehicle safety and environmental performance are maintained and that added value and innovation continues to be encouraged.
  2. Avoid duplication of work to eliminate the burden of additional development and double testing, marking and certification.
  3. Ensure that regulators on both sides commit to ongoing cooperation and dialogue with each other, to allow for the greatest possible level of information exchange and consultation in the formulation of legislations in the automotive sector.
  4. Ensure that within the framework of the trade agreement, provisions concerning all aspects of technical barriers to trade are as robust as possible.

**What form of regulatory cooperation should there be between the UK and EU, including cooperation with EU agencies?**

- The EU-Japan agreement, with its comprehensive automotive annexe and shared recognition of UN level standards, provides a useful example for how automotive regulatory issues. Over the last decade, the inclusion of automotive-specific regulatory annexes in preferential trade agreements has ensured a significant reduction of non-tariff barriers in this heavily regulated industry. In some cases, automotive annexes have formed the most valuable result in agreements with third countries that do not apply tariffs on imports of automotive products.
- We therefore support the UK government proposal to include an automotive annexe in the agreement with the EU.

**How could the UK and EU minimise the costs and disruption associated with any testing and compliance processes that will be required, including conformity assessments? How effective would mutual recognition be in keeping these to a minimum?**

- Mutual recognition of testing and compliance procedures, particularly in relation to the use of technical services, Whole Vehicle Type Approvals and the use of CE markings, would be very helpful in keeping additional costs and disruption related to Conformity Assessment to a minimum.

**What arrangements on rules of origin should there be between the UK and the EU? What precedents are there for bespoke arrangements in other trade agreements?**

- Tariff liberalisation provides benefits to both manufacturers and customers. Reducing or eliminating tariffs on components and raw

materials boosts the competitiveness of manufacturers that rely on international parts sourcing. Reducing the tariffs on imports of completed goods provides benefits to consumers through keener pricing and increased choice.

- The future EU-UK Trade Agreement must ensure that no tariffs are imposed on the trade in goods between Great Britain and the EU. It must be remembered that a Free Trade Agreement on its own does not guarantee tariff free trade. The provisions of the agreement must be such that businesses are able to efficiently access preferential tariff rates. With certain Free Trade Agreements (FTA) in place between the EU and third countries, Honda and its customers can benefit from lower/zero duty rates when certain defined origin conditions are met. On average, most FTAs require 60% local content to benefit from preferential treatment.
- Given that Honda sources parts and products through a regional and global supply chain, it is vital that the future EU-UK agreement takes a modern and flexible approach to Rules of Origin. At the very least, the EU-UK deal should allow for the bilateral cumulation of content, and ideally cumulation should be extended to other third country trade partners such as Japan. The UK's accession to the "Pan Euro Med" Rules of Origin Framework would also be helpful

**How could customs processes and documentation be simplified to support UK-EU trade? What role could new technology play in this regard? What improvements should be made to existing customs facilitations, such as trusted trader schemes, particularly for the benefit of small and newly-established businesses?**

- Honda has consistently argued that the future EU-UK relationship should be based on continued membership of the EU Customs Union, in order to avoid tariffs and rules of origin checks and minimise checks and paperwork at the border.
- However, given that this outcome now seems unlikely, we call on the EU and UK authorities to ensure that the EU-UK future agreement -whether as part of the FTA or as a separate deal - contains comprehensive provisions to eliminate or reduce customs checks and formalities at the GB/EU border. Examples of such agreements include Chapter Six of the Canada Europe Trade Agreement (CETA) or the 2008 EU Japan Agreement on Customs Cooperation.
- These provisions should be accompanied by the implementation of unilateral facilitations and customs process streamlining by UK and other Member States customs authorities to reduce the administrative burden on economic operators and minimise friction on the cross channel movement of goods.

**Are there any other areas where the UK or EU should be more ambitious in reducing the costs associated with non-tariff barriers?**

- The automotive industry is undergoing a period of radical transformation, as electrification, automation and connectivity change the way cars are designed, made, sold and used. Automotive products therefore are increasingly offered in conjunction with a range of financial and data services, meaning that they rely on trade agreements going further than simply liberalising the trade in goods – barriers to the provision of services and the flow of must also be avoided. Regulatory divergence in the area of movement of data in particular could lead to further legal 'red tape' for customers providing data, or risk of Inconsistent user experiences for end users of products where service requires data to work effectively. Regulatory divergence and the imposition of different conditions or constraints could create additional risks in relation to the protection of data and legal risks for companies.
- For instance, the development of connected cars will change the relationship between OEMs such as Honda and individual customers. Whereas previously, the contractual relationship was purely between customer and dealer, the provision of connected and data services will create a direct relationship between customer and OEM, which could lead to the transfer of data across borders or offshore where OEM data centres are in a different country. The lack of adequate provisions around data adequacy and protection could thus hamper innovations in connected mobility and reduce benefits to customers.
- We call on the EU and UK to work urgently towards a Data Equivalency Agreement to allow the transfer of data across the Channel, while ensuring continued alignment and cooperation on regulation around emerging technologies and services such as connected vehicles, smart charging and energy management.

**What impact would the absence of a UK-EU trade agreement at the end of the transition period have on non-tariff barriers and, consequently, UK businesses? How prepared are UK businesses for this situation and what should they be doing to get ready?**

- Honda has long argued that the worst possible outcome would be the failure to reach an agreement on the future relationship and to default to World Trade Organisation rules. Equally, a rushed or insufficiently ambitious deal would lead to serious disruption and have an impact on competitiveness.
- While we note that the Government has ruled out requesting an extension to the Transition Period under the provisions of the Withdrawal Agreement, we call on the EU and UK to take the time necessary to deliver a comprehensive agreement that supports the continued productivity and competitiveness of European business and protects consumers.
- With the terms of both the trade agreement and domestic rules and regulations still unclear, businesses may need additional time to adapt to

the new trading conditions put in place by a new EU-UK agreement. Therefore, a meaningful implementation period will be required to enable businesses to adapt to changes in regulation and the business environment.

- Additionally, action will be required by the UK domestically to ensure that regulation and advice is in place as the UK leaves the EU's regulatory framework. A great deal of the guidance that had been published in the run up to a possible No Deal earlier in the year has been withdrawn. This must be replaced as soon as possible, with urgency on arrangements for:
  - CE Markings
  - VAT
  - GDPR and Data Adequacy
  - Customs and Tariff arrangements

**26 June 2020**